

Message Text

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PAGE 01 WELLIN 00684 140459Z

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SUBJECT: ZANETTI COMMITTEE REPORT TO GNZ ON FARM INCOMES

REF EMBASSY'S 0664

1. THE 247 PAGE REPORT OF THE "FARM INCOMES ADVISORY COMMITTEE" TO THE MINISTER OF AGRICULTURE AND FISHERIES WAS MADE PUBLIC MARCH 13. IN ACCORDANCE WITH ITS TERMS OF REFERENCE IT RECOMMENDS "WAYS OF REDUCING PRONOUNCED PRODUCT PRICE FLUCTUATIONS CONSISTENT WITH THE NEED TO MAINTAIN MARKET ORIENTATION OF AGRICULTURAL PRODUCTION...AND INCENTIVE AND ABILITY TO RESPOND TO TRENDS IN OVERSEAS AGRICULTURAL POLICIES AND PRICES". ACCORDING TO THE REPORT, THE MINIMUM PRE-REQUISITE TO IMPROVING MARKET RETURNS TO PRODUCERS MUST BE THAT A MECHANISM EXIST TO ENABLE PRICES TO BE STABLIZED FROM YEAR TO YEAR, OVER GOOD YEARS AS WELL AS POOR YEARS BE SETTING AT THE BEGINNING OF THESEASON A BASIC PRICE TO BE PAID TO FARMERS WITH A COMMODITY BUFFER ACCOUNT OPERATING TO ABSORB THE DIFFERENCE BETWEEN THIS

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PAGE 02 WELLIN 00684 140459Z

STABLIZED PRICE AND THE NET MARKET PRICE.

2. THE COMMITTEE'S MAIN FINDINGS ARE:

A) A FORMULA PRICE BASED ON SOME VARIANT OF MOVING AVERAGE SMOOTHING (APPLIED TO MARKET PRICES LESS OFF-FARM COSTS) SHOULD BE SET; THE FORMULA PRICE MAY BE ADJUSTED WHERE NECESSARY WITHIN SPECIFIED DISCRETIONARY LIMITS IN ORDER TO TAKE ACCOUNT OF CURRENT MARKET INFORMATION AND PRODUCT PRICE RELATIVITIES.

B) THE PRICE SO ADJUSTED SHOULD BE THE BASIC PRICE FOR EACH PRODUCT, TO APPLY THROUGHOUT THE SEASON.

C) IF A COMMODITY POOLING AUTHORITY WERE TO CONTROL THE WHOLE SUPPLY OF A PARTICULAR PRODUCT, IT WOULD BE ABLE TO BUY PRODUCE AT THE STABILIZED PRICE, AND SELL IT ON THE MARKET SO AS TO GAIN THE BEST RETURN, ABSORBING THE DIFFERENCE BETWEEN MARKET RECEIPTS AND COST OF SALES IN THE BUFFER ACCOUNT. SINCE THIS WOULD, IN GOOD YEARS, YIELD A TRADING SURPLUS

D) OTHERWISE, THE STABILIZED PRICE WOULD BE OPERATED BY DEFICIENCY PAYMENTS OF LEVIES WHICH WOULD BE ABSORBED IN THE BUFFER ACCOUNT. THERE WOULD IN THAT CASE BE NO TRADING SURPLUS TO DISTRIBUTE.

E) THE ACHIEVEMENT OF GENERAL DOMESTIC STABILITY REQUIRES THAT MEASURES TO CONTROL IMPORT SPENDING BE MORE STRONGLY AND CONSISTENTLY PRESSED. IF FARM STABILIZATION IS TO MAKE ITS MOST EFFECTIVE CONTRIBUTION IN CONJUNCTION WITH THESE MEASURES, FARM STABILIZATION RESERVES ACCUMULATED IN FUTURE SHOULD BE HELD IN FOREIGN CURRENCY.

F) MORE RESOLUTE ACTION SHOULD BE TAKEN TO REDUCE BOTH ON AND OFF FARM COSTS, PARTICULARLY TRANSPORT, PROCESSING AND HANDLING COSTS.

G) PENDING ANY SUBSTANTIAL IMPROVEMENT IN COSTS AND/OR MARKET PRICES, THE COMMITTEE CONSIDERS THAT THE KEY IMPORTANCE OF THE PASTORAL INDUSTRY AS A PRODUCER OF FOREIGN EXCHANGE, THE INABILITY OF THE PASTORAL SECTOR TO PASS ITS COST INCREASES ON TO MARKETS, AND THE SPECIAL POSITION OF THE PASTORAL FARMER AS THE FINAL ABSORBER OF COST INCREASES WITHIN THE SECTOR

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 WELLIN 00684 140459Z

TOGETHER PROVIDE A GOOD CASE FOR SUPPLEMENTARY ASSISTANCE OUTSIDE THE INDUSTRY-FUNDED STABILIZATION MEASURES WHEN CIRCUMSTANCES MAKE IT NECESSARY.

H) DESPITE THE REGARD THAT WOULD BE NECESSARY TO THE CONSIDERATION OF COST LEVELS, THE COMMITTEE DOES NOT FAVOR A COST-PLUS SYSTEM; THE NEEDS OF ALIGNING PRODUCTION WITH MARKET REALITIES, AND OF PROVIDING FARMERS WITH SUFFICIENT CHALLENGE

AND INCENTIVE, CANNOT BE LOST SIGHT OF.

I) THE COMMITTEE CONSIDERS THE FORMATION OF A BODY CHARGED WITH THE OVERVIEW OF THE WHOLE PASTORAL SECTOR TO BE OF MAJOR IMPORTANCE IN ACHIEVING THE BEST PERFORMANCE FROM THE SECTOR. IN VIEW OF THE LIKELY LENGTH OF TIME INVOLVED IN DEVELOPING SUCH A BODY, IT WOULD BE DESIRABLE TO SET UP A STEERING COMMITTEE TO INITIATE ITS DEVELOPMENT.

J) THE COMMITTEE RECOMMENDS THAT, IN THE INTERIM, AN AUTHORITY BE ESTABLISHED TO COORDINATE THE SETTING OF PRICES PAID FOR PRODUCT IN CONJUNCTION WITH THE EXISTING COMMODITY ORGANIZATIONS. THIS AUTHORITY WOULD BE KNOWN AS THE PASTORAL INDUSTRY PRICING AUTHORITY (PIPA). ITS MEMBERSHIP WOULD COMPRISE THREE GOVERNMENT REPRESENTATIVES, THREE INDUSTRY REPRESENTATIVES, AND ONE INDEPENDENT CHAIRMAN.

K) PRICE SETTING COMMITTEES, AS SUB-COMMITTEES OF THE PIPA WOULD ACT AS SPECIFIC INDUSTRY COUNCILS (I.E. FOR MEAT, DAIRY AND WOOL) AND WOULD REVIEW THE SPECIAL CONDITIONS IN THEIR RESPECTIVE INDUSTRIES EACH YEAR. THE FUNCTIONS OF THE SUB-COMMITTEES WOULD BE SIMILAR TO THOSE RECOMMENDED FOR THE PIPA., EXCEPT THAT EACH SUB-COMMITTEE WOULD BE CONCERNED MAINLY WITH ITS OWN PRODUCT.

L) THE EXISTING PRODUCER BOARDS WOULD BE CONSTITUTE AND WOULD DISCHARGE THEIR FUNCTIONS AS AT PRESENT, EXCEPT THAT THE OPERATING RULES OF THE BUFFER ACCOUNT WOULD BE ADMINISTERED BY THE PIPA. THE BOARDS WOULD INITIATE PROPOSALS TO THE PRICE SETTING SUB-COMMITTEES AND BE REPRESENTED ON THEM AND ON THE PIPA.

3. THE ZANETTI REPORT DOES NOT HAVE ANY OFFICIAL STATUS. THE COMMITTEE IS NON-GOVERNMENTAL. MINISTER OF AGRICULTURE AND UNCLASSIFIED

UNCLASSIFIED

PAGE 04 WELLIN 00684 140459Z

FISHERIES TOLD THE ECON/COMM COUNSELOR AND AGATTACHE THAT THE REPORT DID PARALLEL IN BROAD LINES HIS OWN PERSONAL VIEWS ON ACTION NEEDED TO DEAL WITH THE FARM INCOMES PROBLEM. IN A PUBLIC STATEMENT THE MINISTER IN COMMENDING THE COMMITTEE'S "BOLD AND

IMAGINATIVE APPROACH" ACKNOWLEDGED THERE ARE LIKELY TO BE SHARPLY DIVIDED VIEWS WITHIN FARMING CIRCLES ON SOME ASPECTS OF THE REPORT. SOME FARM GROUP LEADERS HAVE MADE TENTATIVE FAVORABLE COMMENTS, THOUGH AS YET THERE HAS BEEN LITTLE INFORMED COMMENT ON DETAILS OF THE VOLUMINOUS REPORT. THE CHAIRMAN OF THE MEAT EXPORTERS' COUNCIL ON THE OTHER HAND BRANDED THE REPORT AS "APPALLING".

4. THE EMBASSY IS DISPATCHING COPIES OF THE REPORT IN THE NEXT POUCH.

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